

**BILL #** SB 1086

**TITLE:** property tax; electric utilities valuation

**SPONSOR:** Brown

**STATUS:** As Amended by FIN

**REQUESTED BY:** Senate

**PREPARED BY:** Hans Olofsson

	<b>FISCAL YEAR</b>		
	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>EXPENDITURES</b>			
General Fund – Basic State Aid	\$-0-	\$-0-	\$-0- to \$12,921,000
<b>REVENUES</b>			
General Fund – Property Tax	\$-0-	\$-0-	Cost cannot be determined

## **FISCAL ANALYSIS**

### **Description**

Retroactive to January 1, 2003, this bill would create a permanent method for allocating electric transmission, distribution, and generation values among taxing jurisdictions. The bill would also provide statutory methods for valuing both new and existing generation facilities. (New generation facilities are those placed in operation after January 1, 2001.)

According to the Department of Revenue (DOR), SB 1086 builds on two earlier “deregulation bills:” Laws 2000, Chapter 384, and Laws 2002, Chapter 234. The first enactment provided a 15% valuation reduction in tax years 2001 and 2002 for existing power plants. The second enactment provided a valuation freeze in tax year 2003 for existing generation facilities and clarified the allocation method for generation, transmission, and distribution values among taxing jurisdictions.

### **Estimated Impact**

Based on data provided by DOR, we estimate that SB 1086 will increase the cost for Arizona Department of Education Basic State Aid to schools by an amount between \$0 and \$12,921,000 in FY 2005. The impact on Basic State Aid depends on the amount of net assessed valuation (NAV) that would be forgone under SB 1086. These estimates are based on the current Qualifying Tax Rate (QTR) and County Equalization Rate.

Property tax revenues deposited in the state General Fund will be affected by any changes to minimum QTR levies resulting from this bill. However, not enough data exists to provide an estimate of such revenue impact.

DOR does not have a General Fund estimate of this bill. The JLBC Staff, however, used DOR’s NAV estimate to calculate the impact on Basic State Aid.

(Continued)

## **Analysis**

According to DOR, this bill could result in a statewide NAV loss of between \$0 and \$300 million in tax year 2004 (FY 2005 for budgetary purposes). The broad range reflects DOR's difficulties in predicting the impact of the various provisions of this bill, especially with respect to obsolescence. Under SB 1086, taxpayers will be required to submit documented justification to DOR for any obsolescence claims. However, the actual amount of such claims will not be known until June. The low end of the estimate reflects no obsolescence claims, whereas the high end assumes some obsolescence, as determined by DOR.

This analysis assumes the current Qualifying Tax Rate and County Equalization Rate, and does not reflect any Truth in Taxation (TNT) adjustments. Under this provision of the law referred to as Truth in Taxation (TNT), the two tax rates used in the Basic State Aid formula are adjusted each year to account for the statewide appreciation of existing property. The purpose of TNT is to offset valuation changes with commensurate tax rate changes so as to keep the overall tax liability associated with Basic State Aid unchanged.

## **Local Government Impact**

Not enough data exists to provide an estimate of the impact on local taxing jurisdictions.

2/27/03